

MEMORANDUM

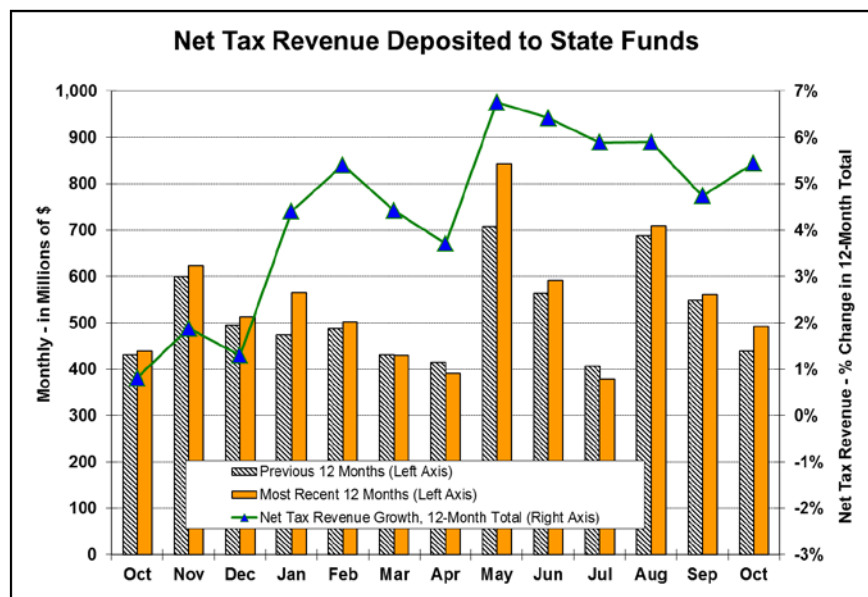
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: November 28, 2011

Twelve-month Total Net Tax Receipts Through October 31, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending October 2011 with comparisons to the previous twelve months. October 2010 to October 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

October 2011 net State tax revenue was 12.1% higher than October 2010. October 2011 benefitted from the late deposit of tax revenue. Tax revenue that should have been deposited in September did not get credited until October 1. Additionally, October ended on a weekday this year but on a weekend in 2010. The month also benefitted from a significant increase in corporate income tax revenue. At \$6.599 billion, annual revenue is up 5.4% compared to the

previous 12 months, but annual revenue remains well below the pre-recession peak level of \$6.760 billion (October 2008).

Month of October Comparison

October net tax receipts totaled \$492.1 million, an increase of \$53.1 million (12.1%) compared to October 2010. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$11.8 million, 5.6%) – Withholding payments increased a modest 1.5% for the month and there was a significant (\$5.6 million) jump in payments with filed tax returns.
- Sales/Use Tax (positive \$6.4 million, 5.4%)
 - Road Use Tax Fund use tax (fee for new registration) increased \$1.0 million in October.
 - Gross General Fund sales/use tax receipts increased \$12.5 million while regular tax refunds increased \$5.2 million and school infrastructure transfers out increased \$1.9 million.
- Corporate Income Tax (positive \$26.6 million, 142.2%) – Corporate income tax revenue, net of tax refunds, has posted strong growth in five of the past six months.
- Fuel Tax (negative \$2.0 million, - 5.1%) – Most of the month's decrease was due to an increase in tax refunds issued.
- Cigarette and Tobacco Taxes (positive \$7.1 million, 41.8%) – Significant cigarette tax deposits are made every Friday. However, the large weekly deposit did not occur on Friday September 30 this year. The deposit was made October 1 and this provided a boost to cigarette tax deposits in October.
- Gambling Tax (positive \$1.5 million, 6.8%) – The new casino in Lyon County (opened June 2011) will provide monthly year-over-year revenue increases throughout FY 2012.

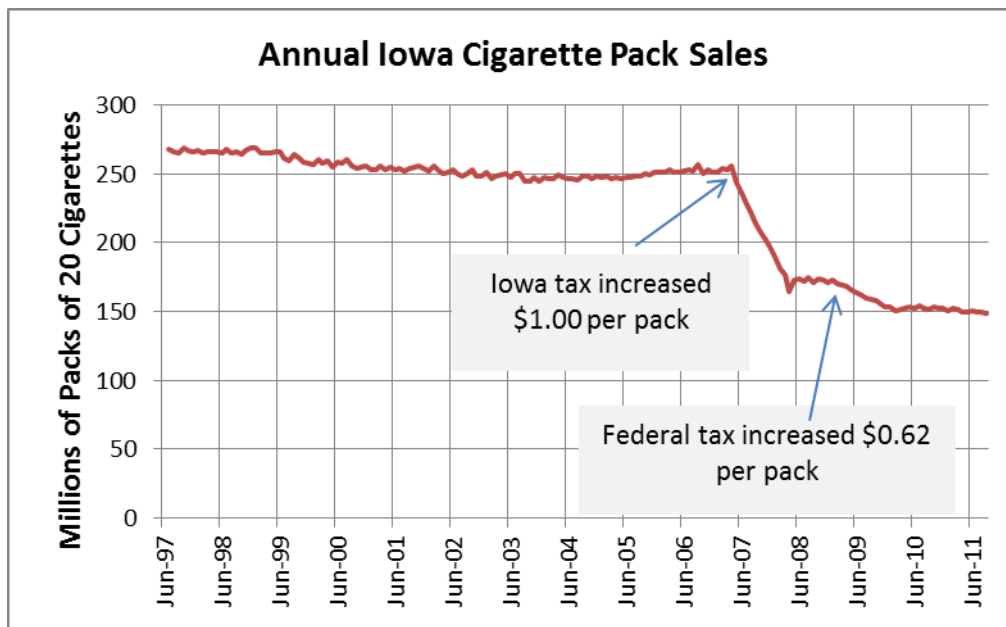
Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending October 2011, net revenue from all taxes deposited to State funds totaled \$6.599 billion, an increase of \$340.5 million (5.4%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$181.3 million, 6.7%) – Individual income tax continues to post strong year-over-year annual growth numbers. However, the growth rate has slowed in recent months. At \$2.887 billion, the level of net individual income tax revenue over the past 12 months is essentially the same as the level first reached in August 2008 and is 0.9% below the November 2008 peak.
- Sales/Use Tax (positive \$82.5 million, 3.8%) – While sales/use tax revenue increased 3.8% over the past year, receipts are \$35.4 million (-1.6%) below the November 2008 peak level.
- Corporate Income Tax (positive \$57.1 million, 25.5%) – Although up significantly over the most recent 12 months, corporate tax revenue, net of refunds issued, is 21.7% below the pre-recession peak.
- Fuel Tax (positive \$4.7 million, 1.1%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 2.8% while taxable diesel sales increased 3.9%. Although up year-over-year,

taxable diesel sales over the most recent 12-month period are 3.7% lower than the March 2008 peak diesel sales level and total taxable fuel gallons are only 1.3% above the pre-recession (August 2007) peak for all gallons sold.

- Gambling Tax (positive \$6.8 million, 2.5%) – According to Racing and Gaming Commission statistics, six of Iowa's 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending October 2011. The combined AGR growth for the 18 facilities was positive 2.7% over the same 12 months last year, with the Lyon County casino contributing 64.0% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.398 billion.
- Insurance Premium Tax (negative \$3.3 million, - 3.4%)
- Cigarette and Tobacco Tax (negative \$3.4 million, - 1.5%)



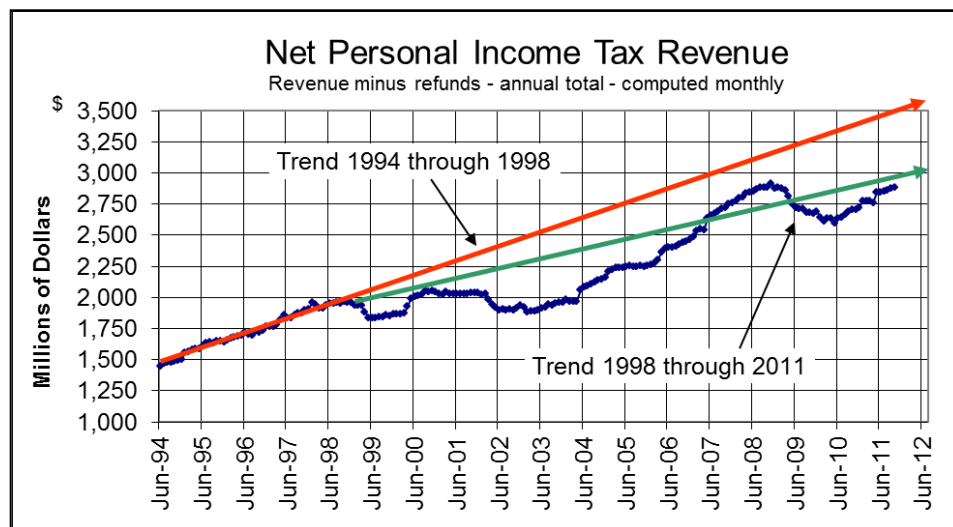
Tax Spotlight – Individual Income Tax

Iowa individual income is taxed under the authority of Iowa Code Chapter 422, Division II. The Iowa individual income tax is imposed on Iowa taxable income of individuals, estates, and trusts. Married filers with a combined net income of less than \$13,500 (\$9,000 for single taxpayers) are not generally required to pay Iowa income tax or submit an Iowa income tax return. This “filing threshold” does not apply to taxpayers claimed as dependents on another tax return. Iowa uses federal adjusted gross income as the initial point for tax calculation.

The Iowa individual income tax was first imposed in 1934 with a minimum marginal rate of 1.0% and a maximum marginal rate of 5.0% (HF 1 - Income, Corporation, and Sales Tax Act). The current tax rates were established in 1998 (HF 388 – Individual Income Tax Rates Act) and are applied to nine taxable income brackets ranging from an initial rate of 0.36% and a maximum rate of 8.98%. The income brackets are adjusted each year by the Department of Revenue based on an inflation calculation. For the 2011 tax year, the maximum marginal tax rate applies

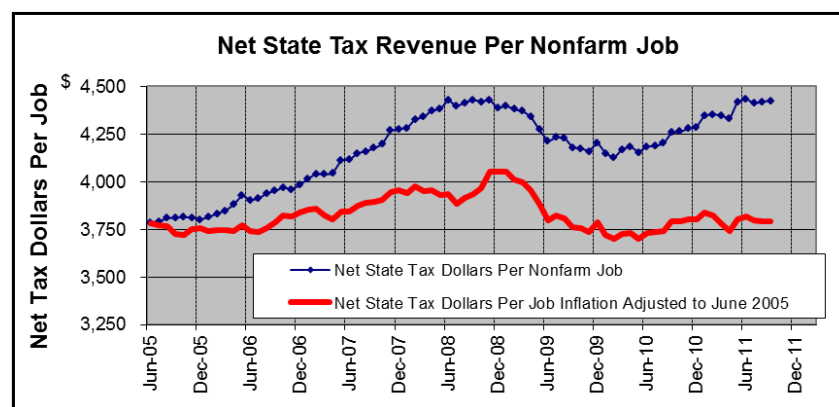
to taxable income above \$64,755. Taxpayers deduct 100.0% of federal income tax paid when calculating taxable income.

There are a large number of tax credits that may provide a reduction in individual income tax. A list is located at <http://www.iowa.gov/tax/taxlaw/Taxcredits.pdf>. Individual income tax returns are filed by the last day of the fourth month following the end of the tax year (April 30 for most taxpayers). In some cases, individuals may be required to remit quarterly estimated tax payments. Withholding tax is due semimonthly, monthly, or quarterly, depending on the total amount of income tax withheld by the employer. In general, individual income tax revenues are deposited in the State General Fund. Pursuant to Iowa Code Section 422.16A, \$4.0 million from withholding tax is deposited in the Workforce Development Fund each year.



Tax Revenue and Employment

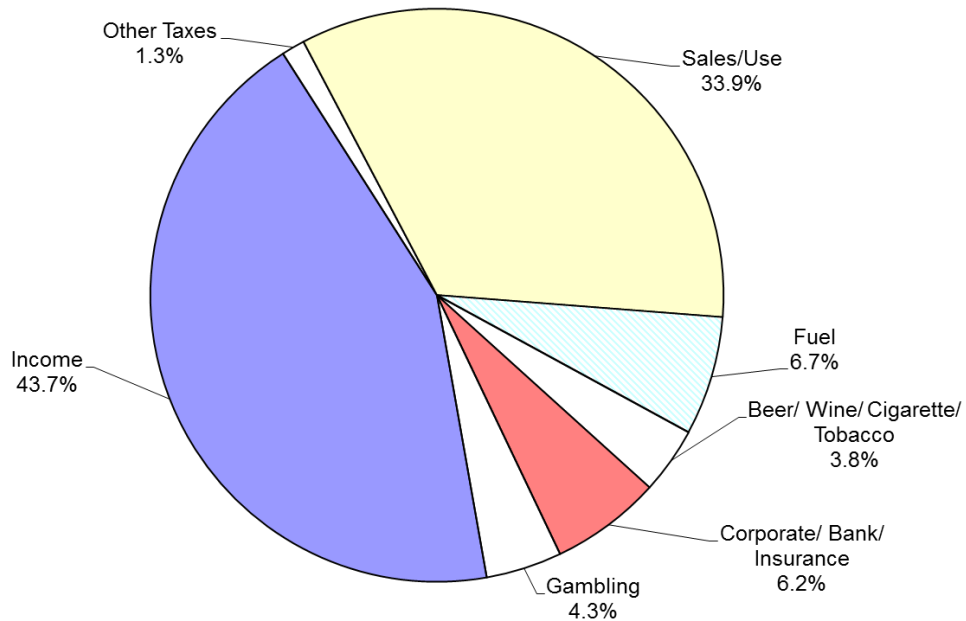
The average reading for Iowa nonfarm employment over the 12 months ending September 2011 is 1,479,400 and net State tax receipts over the same 12 months totaled \$6.546 billion, or \$4,425 per nonfarm job. This is \$640 (16.9%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 16.7%. Therefore, State tax revenue per job has slightly exceeded the rate of inflation since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



Net State Tax Revenue - Twelve Months Ending October 2011

Net Revenue = \$6.599 Billion

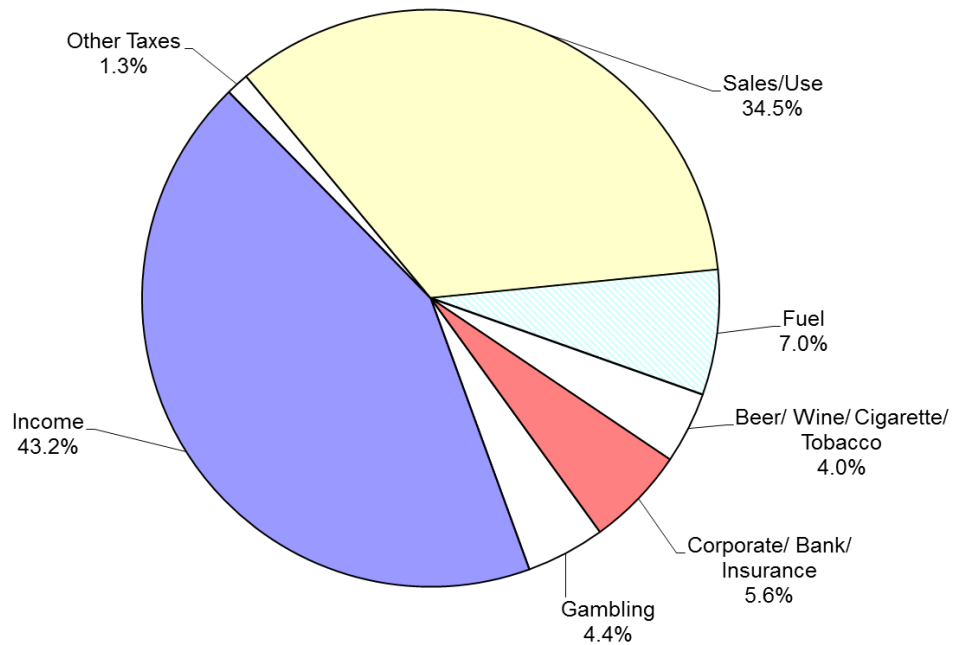
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending October 2010

Net Revenue = \$6.258 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of October 2010	Month of October 2011	October \$ Change	October % Change
Banking	\$ 28.1	\$ 35.6	\$ 7.5	26.7%	\$ 1.2	\$ 3.5	\$ 2.3	191.7%
Beer & Wine	21.1	21.5	0.4	1.9%	1.7	1.8	0.1	5.9%
Cigarette & Tobacco	229.8	226.4	- 3.4	-1.5%	17.0	24.1	7.1	41.8%
Corporate Income	224.1	281.2	57.1	25.5%	18.7	45.3	26.6	142.2%
Fuel	438.6	443.3	4.7	1.1%	39.1	37.1	- 2.0	-5.1%
Gambling	276.3	283.1	6.8	2.5%	21.9	23.4	1.5	6.8%
Individual Income	2,705.5	2,886.8	181.3	6.7%	212.1	223.9	11.8	5.6%
Inheritance	62.4	65.3	2.9	4.6%	5.1	4.2	- 0.9	-17.6%
Insurance	97.8	94.5	- 3.3	-3.4%	0.0	0.0	0.0	--
Other Taxes	4.7	7.8	3.1	66.0%	1.9	1.5	- 0.4	-21.1%
Real Estate Transfer	13.3	14.2	0.9	6.8%	0.9	1.5	0.6	66.7%
Sales/Use	2,156.8	2,239.3	82.5	3.8%	119.4	125.8	6.4	5.4%
Total Net Taxes	\$ 6,258.5	\$ 6,599.0	\$ 340.5	5.4%	\$ 439.0	\$ 492.1	\$ 53.1	12.1%
Gross Tax & Refunds								
Gross Tax	\$ 7,498.7	\$ 7,881.8	\$ 383.1	5.1%	\$ 498.2	\$ 556.2	\$ 58.0	11.6%
Tax Refunds	\$ - 1,240.3	\$ - 1,282.8	\$ - 42.5	3.4%	\$ - 59.1	\$ - 64.2	\$ - 5.1	8.6%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,269.5	\$ 5,551.5	\$ 282.0	5.4%	\$ 352.1	\$ 380.8	\$ 28.7	8.2%
Road Use Tax Fund	\$ 699.1	\$ 733.2	\$ 34.1	4.9%	\$ 63.9	\$ 62.9	\$ - 1.0	-1.6%
Non-GF Gambling	\$ 272.5	\$ 215.2	\$ - 57.3	-21.0%	\$ 20.5	\$ 21.9	\$ 1.4	6.8%
Other State Funds	\$ 17.4	\$ 99.2	\$ 81.8	470.1%	\$ 2.6	\$ 26.5	\$ 23.9	919.2%
Local Option Taxes *	\$ 779.0	\$ 839.9	\$ 60.9	7.8%	\$ 54.7	\$ 58.4	\$ 3.7	6.8%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.